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SUBJECT: LIBERIA: BANKING SYSTEM STABILIZING DESPITE CHALLENGES

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¶1. (SBU) Summary: Although banking services remain concentrated in Monrovia, the number of banks is increasing and most are expanding their reach outside the capital. Indicators of financial soundness are improving, and there is competition to increase services beyond money transfers and fee-based transactions. Inbound money transfers have declined since late 2008, and bankers expect the global financial crunch to increase stress on the banking system. Despite the Central Bank of Liberia's (CBL) announcement of a temporary hold on issuance of new banking licenses, there have been four new bank licenses issued, primarily to Nigerian banks, since the CBL made a similar announcement. End summary.

The Indicators are Improving

¶2. (U) As of the end of 2008, banks' average capital adequacy ratio stood at 22%, with all banks but one exceeding the 8% required minimum CAR. (Note: Required bank capitalization was increased from $2 million to $6 million in 2008, and will be $8 million at end-2009.) Aggregate commercial bank credit increased by 46.5% in 2008, and levels of credit to the private sector increased from 60.2% in 2006 to 98.6% in 2008.

¶3. (SBU) By end-January 2009, non-performing loans had declined to 14.2% from a November 2008 peak of 19.1%. Bankers expect non-performing loans to increase again as the economy worsens. (Note: GDP growth was 7.1% in 2008 but is expected to be about 4-5% in 2009, down from the original forecast of 9.5%. End note.) The economic slow-down has already had an impact on the GOL's ability to meet its commitments to CBL and two commercial banks to which it owes millions from borrowing by past governments, with promised payments arriving just before the deadline for provisioning by at least one of the commercial banks.

¶4. (U) The Liberian dollar money supply (M1) increased 21.6% in 2008, a slower rate of growth than the 29.6% increase in 2007. According to the Central Bank, the lower growth reflects a tightening of monetary policy to control inflation. However, M1 including U.S. dollar deposits in banks, converted to Liberian dollars, showed an increased of 43.9% over the 2007 level, with U.S. dollars accounting for about two-thirds of the total money supply. (Note: The dual currency regime complicates the impact of the CBL's monetary policy. The CBL cannot measure U.S. dollars that are not in the banking system. End note.)

¶5. (U) According to the Central Bank, interest rates declined at the end of 2008, to 15.8% for loans. The rate on time deposits increased slightly to 4.1%. Inflation was 6.4% in January 2009, down from a peak of 26.6% in August 2008. The average inflation rate in 2008 was 17.5%. (Note: the GOL's draft budget assumes a 2009-10 interest rate of 3.3%. End note.)

Outbound Remittances are Exceeding Incoming

¶6. (U) Many Liberians have long relied on funds from relatives abroad, especially in the United States. Although there is seasonal

fluctuation, there has been a clear trend. From October 2008-January 2009, inbound remittances ranged from $64-75 million; outbound ranged from $76 to 89 million. There was a surge in December in both cases, but outbound transfers consistently exceed inbound, and that is starting to be reflected in the exchange rate. In 2008, outbound remittances totaled $201.2 million, down 33.6 percent from 2007. Since at least the fourth quarter of 2008, outbound remittances have consistently exceeded inbound flows.

¶7. (U) Despite the lack of detailed data, banking sources agree that the economic situation in the United States and Europe has contributed to the drop in inward transfers. While inbound remittances are primarily from the United States, outbound destinations are more diverse. One banker reports an increase in outward transfers by foreign UN and NGO employees, who now have to transfer money to families at home. In mid-May, the GOL found it necessary to make a public denial that there was capital flight. However, we note major families of the former elite maintain their off-shore bank accounts and are not investing in upgrading their central Monrovia real estate.

¶8. (U) The Liberia dollar remained fairly steady against the U.S. dollar over the past few years, at about LD60-63 per USD, but there has been recent depreciation, to over LD70/USD in May 2009. U.S. dollar demand deposit accounts grew 62.1% in 2008, compared to a 48.1% increase in Liberian dollar demand deposit accounts. The CBL governor has stated the weekly foreign exchange auctions are "insufficient for liquidity management."

What to do with Liberian dollars?

¶9. (U) The liquidity ratio -- averaging over 50%-- is telling. Banks are warehouses for Liberian dollars and, with no secondary market, no GOL Liberian dollar bonds, and minimal lending, the cash is piling up. One banker expressed frustration that he has millions in Liberian dollars earning no return while the GOL has shortages. He proposed very limited and tightly controlled bond issuances, perhaps for road construction. The minister of finance has proposed a similar plan (reftel). (Note: The required liquidity ratio is 15 %.) At a May 26 press conference, President Sirleaf addressed the continuing concerns about "capital flight," saying the GOL is looking for ways to increase demand for Liberian dollars, including possibly accepting them for payment of some taxes and customs duty. (Currently all taxes and customs duties must be paid in U.S. dollars.) This is a major but long-resisted policy change that likely reflects increasing balance of payments pressures.

New Entrants: Welcome Nigeria

¶10. (U) Liberia has eight commercial banks, four of which opened or acquired new management within the past year. United Bank for Africa (UBA) has become a prominent player in the market since opening in July 2008. Since then, AccessBank Liberia (AccessHolding of Germany with participation by the IFC, ADB, European Investment Bank), opened in January 2009 and Guaranty Trust Bank of Nigeria opened April 6.

¶11. (U) The CBL approved the 100% purchase of Italian-owned Global Bank by Platinum Habib Bank, a combination of Nigeria's Platinum Bank and Habib Bank (Pakistan/Aga Khan), in February 2009. A provisional license for Oceanic Bank Liberia is pending, with a likely opening in 2010. Of five new or potential bank investors in the past year, four (UBA, GTB, OBL and PHB) are Nigerian.

¶12. (U) First International Bank, licensed in 2005, is also Nigerian. The CBL has announced a moratorium on new bank licenses but we have been told, unofficially, that ban applies only to Nigerian banks. In a May 28 speech, the CBL governor, presumably addressing fears of foreign take-over of the banking sector, noted that there are 75 Liberians in bank management, compared to 19 foreigners, and 883 Liberians in non-management bank jobs, compared to 10 foreigners.

¶13. (U) Of the older banks, LBDI (the Liberian Bank for Development and Investment, founded in 1961) remains partially GOL-owned, with foreign ownership by Afri-Investment, the IFC, International Bank and Firestone, among others. Ecobank (1999) is a branch of the regional Ecobank International. International Bank (founded in 2000) is majority American-owned and recently established a correspondent banking relationship with Citibank.

¶14. (U) The new competition (supported by political stability) is showing results. Banks are expanding, with 30 branches (up from 19 a year ago) and several new bank windows around the country. Despite the expansion, banking services are still inaccessible to many. It is hard to convey the lack of access to banks endured by most Liberians: eight of 15 counties have no financial institution at all. Outside Monrovia, services are minimal and transport and communication remain difficult. Many bank branches outside Monrovia offer minimal service (primarily money transfers). It is standard practice for civil servants in the counties, including teachers, to spend one week a month traveling to and from the nearest bank to cash their salary checks.

What next?

¶15. (U) The CBL identifies the high incidence of non-performing loans, limited investment opportunities, and high overhead costs as impediments to bank performance, and notes that the expected decline in economic activity and remittance flows will affect bank profitability. Banks cite additional obstacles such as the lack of roads and electricity, the cost of providing security and transporting cash, and the lack of an address system, a reliable land registry, or functioning courts. A more effective banking sector depends on stronger supervision and updated technology. Commercial banks are eager for the CBL to progress on a regulatory framework for a more effective credit reporting/rating system. Currently banks report deadbeats to the CBL, but only hear back whether the applicant has a loan outstanding or not: the CBL does not provide information on the amount of existing loans or payment history.

¶16. (U) The CBL is considering, in the medium term, establishing a deposit insurance scheme. There has also been talk of establishing a Financial Intelligence Unit, and the CBL supports establishment of a fast-track commercial court and a credit reference system. Liberian banks are also close to supporting credit card payments and at least one bank has ATMs. The Central Bank has been working on updating regulations to accommodate the requirements of micro-finance lending.

¶17. (SBU) Comment: The Central Bank's public statements sound promising, but it is not moving fast enough. Banks report almost total lack of communication or support for their concerns on fighting money laundering and other issues. The CBL's annual report made no direct reference to its wide-spread multi-year "check recycling" scam, and there has been no convincing demonstration of measure to prevent future malfeasance. The recent fraudulent transfer of $1 million from the CBL to a commercial bank, involving a forgery of the President's signature, was discovered after-the-fact by the Governor of the CBL, not by any internal governance or due-diligence measures.

¶19. (SBU) The CBL acknowledges the need for training and capacity building, but has not been receptive to past assistance. Although bankers disagree on many issues, there is consensus that under current leadership, there will be changes at the margins but the CBL will continue to be a force for maintaining the status quo.

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